

ANNUAL BUDGET OF  
LEKWA LOCAL MUNICIPALITY



2020/21 TO 2022/23  
MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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## **SUMMARY – SALIENT FEATURES**

In terms of section 18 of the MFMA the municipality may only fund its budget from realistically anticipated revenue to be collected as well as cash-backed surpluses. Therefore the municipality must provide for expenditure in line with the revenue that can be collected and don't overstate the revenue as this will result in cash flow challenges.

The budget has to be cash-backed in order for the municipality to be able to implement its Service Delivery Budget Implementation Plans, therefore the municipality should not have a budget that reflect a cash deficit. Due to the implementation of the GRAP 17 Standard, it is permissible for the municipality to have a deficit that is equivalent to its depreciation amount as this is a non-cash item. But it should further be noted that the municipality should have in its reserves an amount equivalent to its depreciation in order for the municipality to have sufficient funds to replace the assets when it becomes obsolete and redundant.

National Treasury has issued Municipal Finance Management Act (MFMA) circular numbers 98 & 99 to guide the compilation of the 2020/2021 medium term revenue and expenditure framework (MTREF) which emphasises that during this tough economical period the municipalities should tighten their spending and reduced unnecessary or nice to have expenditures, improve and prioritise service delivery. The 2019 medium term budget policy statement (MTBPS) is the lowest since the 2008 financial crisis forecast. The GDP is expected to grow at 0, 9% in 2020, 1, 3% in 2021 and 1, 6% in 2022. The global economic environment is uncertain and complex. The economic growth rate achieved over the past periods is lower than the forecast with an average growth rate of 1, 2% predicted for 2020. Besides the low growth rate, Eskom is South Africa's biggest risk.

Over the past decade South Africa's public finances deteriorate due to the low growth which led to large revenue shortfalls. The country has run large budget deficits over the past ten (10) years resulting in a very big debt situation. The high unemployment rate and the local economy which is under pressure will impact on the municipality's ability to generate revenue. The unemployment rate reached an ultimate record of 29, 1% in the second half of 2019. Therefore it is advisable to adopt a conservative approach when projecting revenue, eliminate non-priority spending implementing strict cost containment measures and review how we conduct business to ensure value for money is obtained for all expenditures.

Large reductions in transfers to municipalities is part of 2020 MTREF of government. Municipalities will have to reprioritize projects.

Similar to the rest of government, the municipality face a difficult fiscal environment. Even as demand for services rises, weak economic growth has put stress on consumers' ability to pay for services, while transfers from national government are growing more slowly than in the past.

The municipality has fallen into financial distress and face liquidity problems. These include the municipality being unable to meet their payment obligations to Eskom, water boards and other creditors. There is a need for municipality to focus on collecting revenues owed to it, and eliminate wasteful and non-core spending.

The non-payment of creditors is a symptom of underlying problems which include, among others, weaknesses in revenue collection and underinvestment in asset maintenance and renewal, which compromises the reliability of delivering basic services. In order to achieve financial sustainability, the municipality must demonstrate the political & administrative will to implement the changes required to improve the performance.

The Municipality must ensure that expenditure is limited to the maximum revenue collected and not spend on money that it does not have. Municipality is reminded that, the local government equitable

share allocation is mainly to fund the costs of free basic services and to subsidise some of the administrative costs. The increasing unemployment and growth in the number of persons per household means that the revenue foregone in respect of free basic services will likely increase and it will become even more difficult to collect revenue. The household budget will be under pressure and trade-offs will be applied as it may be unaffordable to pay all household expenses with regularity.

The main challenges experienced during the compilation of the 2020/2021 MTREF can be summarized as follows:

- the increase in unemployment due to slow economic growth within Lekwa
- demand for increased bulk infrastructure (electricity, water and sanitation) to stimulate growth
- ageing water, roads, sanitation and electricity infrastructure
- reprioritization of projects and expenditure given the cash flow realities of the municipality;
- revenue recovery, credit control and declining revenue base due to the current economic environment

Considering the challenges, new ways need to be explored to become efficient to generate the required resources to maintain, renew and expand infrastructure.

The 2020/2021 medium term expenditure framework (MTREF) was based on the following strategic goals:

- provision of sustainable and accessible basic services to all;
- Revenue Enhancement

The application of sound financial management principles is essential to ensure the municipality remains financially viable and the municipal services are provided economically and sustainably.

#### **Overview of the proposed 2020/21 Medium-term Revenue and Expenditure Framework:**

Total operating revenue increases from R 916 606 084 when compared to the 2019/2020 special adjustment budget and amounts to R 1 083 833 258 in the 2020/21 which will increase to R 1 254 593 468 in the 2022/2023 financial year. The revenue budget indicates a growth of 18% when compared to the approved special adjustment budget of 2019/2020

The operating expenditure increased from R 868 923 451 to R 1 055 703 859 in the 2020/21 and subsequently increased to R 1 195 976 065. The expenditure budget increased from 21% when compared to the approved budget of 2019/2020.

The capital budget amounts to R 56 623 400 financial year.

**Table below illustrate Revenue & Expenditure Medium Term Revenue Expenditure Framework**

	Approved Budget 2019/2020	Draft Budget Year 2020/21	Draft Budget Year +1 2021/22	Draft Budget Year +2 2022/23
<b>Total Revenue</b>	- 916,606,084.00	- 1,083,833,258.64	- 1,170,273,654.67	- 1,254,593,468.13
<b>Total Expenditure</b>	868,923,451.57	1,055,703,859.16	1,173,836,235.95	1,195,976,065.71
<b>Grand Total</b>	- 47,682,632.43	- 28,129,400.12	- 21,504,818.72	- 59,080,202.42

### Operating Revenue Framework

Revenue management is fundamental to the financial sustainability of the Municipality. The reality is that we are faced with development backlogs and poverty and therefore the municipal revenue strategy is built around the following key components:

- To seek alternative sources of own revenue to increase the municipal revenue base (rental of properties, outdoor advertising, sales of stands etc)
- Tightening credit control measures and increase debt collection targets
- Improve customer relations and promote a culture of payment of services
- Create an environment which enhances growth, development and service delivery
- Implementation of the indigent support policy to provide free basic services to poor households and protect them from the worst impacts of the economy; and
- Implementation of Revenue Enhancement Strategy
- Implementation of Financial Recovery Plan
- Creation of Job Opportunities
- Installation and Replacement of Meters including meter audit
- Ensure all tariffs are fully cost reflective.

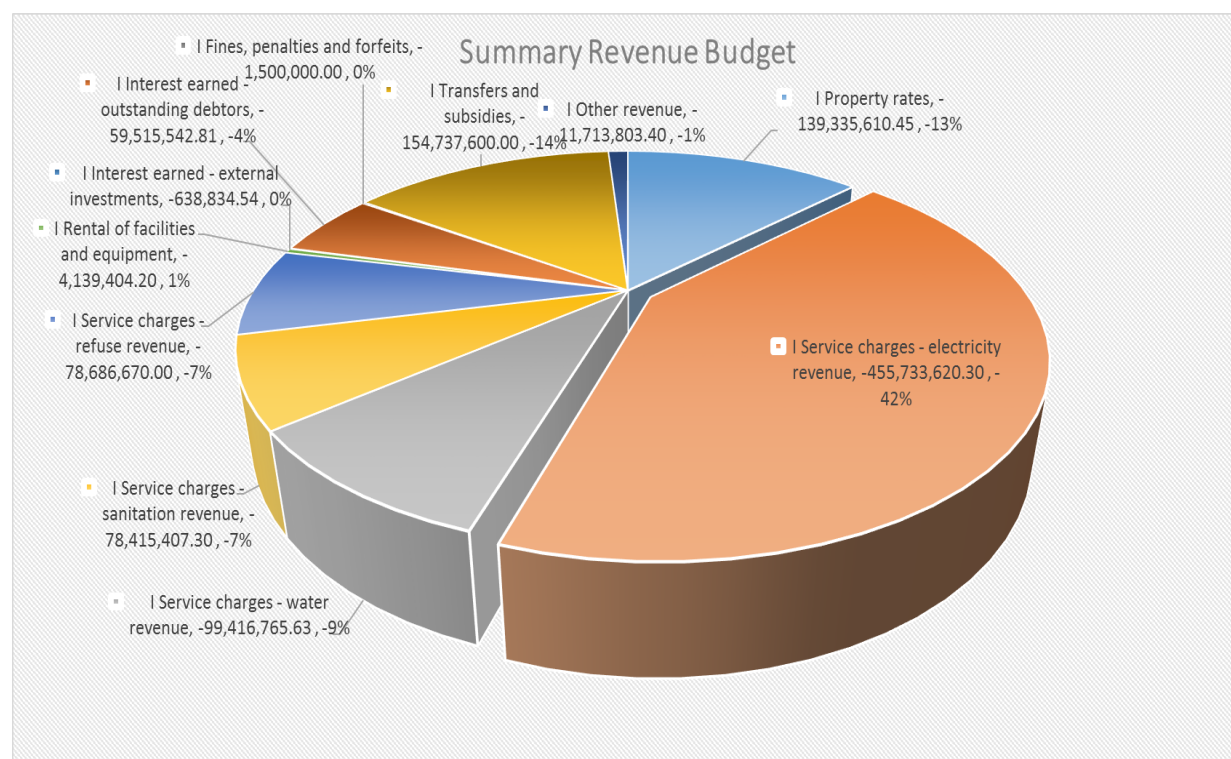
Total operating revenue increases from R 916 606 084 when compared to the 2019/2020 special adjustment budget and amounts to R 1 083 833 258 in the 2020/21 which will increase to R 1 322 593

468 in the 2022/2023 financial year. The revenue budget indicates a growth of 16% when compared to the approved special adjustment budget of 2019/2020

	Approved Budget 2019/2020	Draft Budget Year 2020/21	Draft Budget Year +1 2021/22	Draft Budget Year +2 2022/23
<b>Total Revenue</b>	<b>- 916,606,084.00</b>	<b>- 1,083,833,258.64</b>	<b>- 1,170,273,654.67</b>	<b>- 1,254,593,468.13</b>
Property rates	- 76,502,712.00	- 139,335,610.45	- 155,303,471.41	- 173,101,249.24
Service charges - electricity revenue	- 399,655,944.00	- 455,733,620.30	- 523,072,054.74	- 546,429,263.67
Service charges - water revenue	- 88,970,560.00	- 99,416,765.63	- 89,484,171.48	- 94,855,697.77
Service charges - sanitation revenue	- 46,521,656.00	- 78,415,407.30	- 92,560,931.65	- 109,836,043.55
Service charges - refuse revenue	- 38,776,456.00	- 78,686,670.00	- 82,463,600.00	- 86,421,900.00
Rental of facilities and equipment	- 424,704.00	- 4,139,404.20	- 4,338,100.00	- 4,546,400.00
Interest earned - external investments	- 69,996.00	- 638,834.54	- 669,500.00	- 701,700.00
Interest earned - outstanding debtors	- 33,646,108.00	- 59,515,542.81	- 63,086,475.38	- 66,871,663.90
Fines, penalties and forfeits	- 3,100,000.00	- 1,500,000.00	- 1,572,000.00	- 1,647,600.00
Transfers and subsidies	- 123,366,200.00	- 154,737,600.00	- 145,446,550.00	- 157,314,750.00
Other revenue	- 105,571,748.00	- 11,713,803.40	- 12,276,800.00	- 12,867,200.00

The operating revenue for the 2020/21 financial period consist of electricity R 456 million, property rates R 139 million, water R 99 million, sanitation R 78 million, Refuse Removal R 78 million and other revenue for R 77 million and grants & subsidies amounting R 134 million. The municipality revenue is not growing at the rate similar to expenditure which indicates that the municipality should review the entire revenue management chain to ensure that the revenue is improved.

### Revenue Budget by Source



### Impact of the Revenue Budget on the Municipal Budget

Municipality must adopt a tariff setting methodology that achieves an appropriate balance between the interest of poor households and other customers while ensuring financial sustainability of the municipality

When setting tariffs the following was considered:

- cost of bulk purchases and the fluctuation of seasonal consumption;
- consumption patterns to enable better planning;
- cost of providing services; and
- Sound baseline information.

The proposed tariffs are contained in the draft resolution and attached schedule which provides a comparison of proposed tariffs with the previous financial year.

### **Proposed Tariffs**

Property rates

An average increase of 8%.

The tariff structure is in accordance with the different categories in the valuation roll

Sewerage tariffs

An average increase of 8%.

Refuse tariffs

An average increase of 8%.

Water tariffs

An average increase of 8%.

Electricity tariffs

An average increase of 6.22% %.

It should be noted that NERSA has revised the electricity increase guidelines. Therefore resulting in 6.22% guideline increase instead of 6.23% as previously mentioned in the draft guideline consultation paper 2020/21.

### **Operating Expenditure Framework**

National Treasury has again emphasized in the MFMA circular that municipalities must implement cost containment measures and eliminate non-priority spending and the cost containment measures were regulated in Government

A cost containment policy has been developed by Council and address the following areas:

- Use of consultants.
- Vehicles used for political office-bearers.
- Travel and subsistence according to maximum limits set by National Treasury.
- No credit cards are allowed.
- No sponsorships or municipal funds may be used for social functions, team building, year-end functions such as staff year-end functions, staff wellness and attendance of sporting events by municipal officials.
- Catering to be provided only when meetings exceed five (5) hours.
- Communication to be done in an electronic format, such as internal newsletters et cetera.

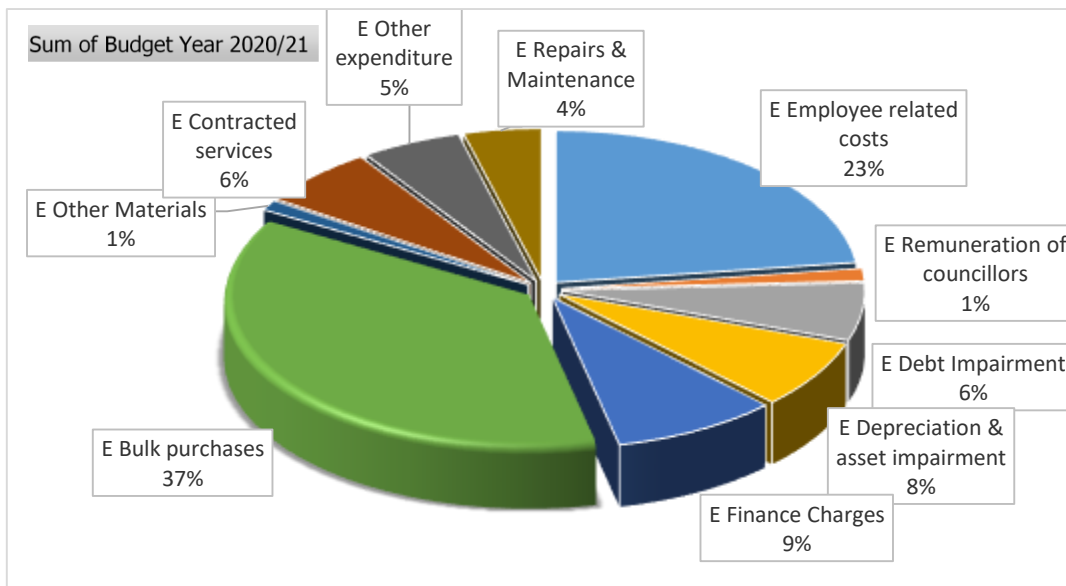
The Municipality has endeavoured to implement the following cost curtailment measure in an effort to reduce expenditure and to ensure that there are no unauthorised expenditure:

- Monitor employee related costs by ensuring employees only work 40 hrs overtime
- Prioritising of filling of critical post that have impact on revenue generation and reduces overtime
- Enforce all procurement to be undertaken through and by SCM Unit only
- Review, negotiate and terminate all none service delivery related contracts
- Manage all procurement through Cashflow Management Committee on procurement below R 200 000.00 including contracted services
- Municipality to continue implementing cost curtailment policy & regulation

The operating expenditure increased from R 868 923 451 to R 1 055 703 859 in the 2020/21 and subsequently increased to R 1 195 976 065. The expenditure budget increased from 21% when compared to the approved budget of 2019/2020.

	Approved Budget 2019/2020	Draft Budget Year 2020/21	Draft Budget Year +1 2021/22	Draft Budget Year +2 2022/23
<b>Total Expenditure</b>	<b>868,923,451.57</b>	<b>1,055,703,859.16</b>	<b>1,173,836,235.95</b>	<b>1,195,976,065.71</b>
Employee related costs	223,255,217.00	249,285,387.30	264,526,500.00	281,697,700.00
Remuneration of councillors	12,509,400.00	14,406,756.64	15,267,777.39	16,237,043.54
Debt Impairment	46,704,866.00	61,491,952.15	82,484,897.78	75,130,240.86
Depreciation & asset impairment	80,000,000.00	80,000,000.00	80,000,000.00	80,000,000.00
Finance Charges	73,489,406.42	96,229,330.86	93,752,263.94	89,164,922.42
Bulk purchases	327,136,832.25	370,230,662.83	448,922,632.98	459,015,594.29
Other Materials	9,328,112.00	11,608,000.08	12,165,700.00	12,750,900.00
Contracted services	33,650,000.00	69,847,190.25	69,226,263.85	69,378,364.60
Other expenditure	35,558,313.90	57,746,386.97	60,478,200.00	63,330,900.00
Repairs & Maintenance	27,291,304.00	44,858,192.08	47,012,000.00	49,270,400.00

The operating expenditure for the 2020/21 financial period consists of bulk purchase R 370 million, employee related costs R 263 million, debt impairment & depreciation R 141 million, finance charges R 96 million, contracted services R 69 million, repairs & maintenance R 44 million and other expenditure amounting to R 57 million.



The draft budget shows and operating surplus of R 8 million in the 2020/21 financial which will increase to R 126 million in the 2022/23 financial year whilst the Municipality should ensure that measures & systems are put in place and continue to be implemented which includes amongst others aggressive revenue improvement strategy, employee related cost reduction, phasing out contracted services, better contract management, reduction in material losses, decreasing of general expenditure in line with the cost curtailment measures as well as the implementation of the Financial Recovery Plan.

The importance of tabling funded budgets is highlighted in MFMA Circular No. 74. This is one of the game changers in local government to ensure financial sustainability. As an initiative to support municipalities in this regard, the National and Provincial treasuries are assessing tabled budgets and assisting municipalities in effecting the required changes to ensure that they adopt funded budgets.

The table below depicts the summary of each revenue stream as well as the expenditure type by summary.

	Approved Budget 2019/2020		Draft Budget Year 2020/21		Draft Budget Year +1 2021/22		Draft Budget Year +2 2022/23
<b>Total Revenue</b>	- 916,606,084.00	-	1,083,833,258.64	-	1,170,273,654.67	-	1,254,593,468.13
Property rates	- 76,502,712.00	-	139,335,610.45	-	155,303,471.41	-	173,101,249.24
Service charges - electricity revenue	- 399,655,944.00	-	455,733,620.30	-	523,072,054.74	-	546,429,263.67
Service charges - water revenue	- 88,970,560.00	-	99,416,765.63	-	89,484,171.48	-	94,855,697.77
Service charges - sanitation revenue	- 46,521,656.00	-	78,415,407.30	-	92,560,931.65	-	109,836,043.55
Service charges - refuse revenue	- 38,776,456.00	-	78,686,670.00	-	82,463,600.00	-	86,421,900.00
Rental of facilities and equipment	- 424,704.00	-	4,139,404.20	-	4,338,100.00	-	4,546,400.00
Interest earned - external investments	- 69,996.00	-	638,834.54	-	669,500.00	-	701,700.00
Interest earned - outstanding debtors	- 33,646,108.00	-	59,515,542.81	-	63,086,475.38	-	66,871,663.90
Fines, penalties and forfeits	- 3,100,000.00	-	1,500,000.00	-	1,572,000.00	-	1,647,600.00
Transfers and subsidies	- 123,366,200.00	-	154,737,600.00	-	145,446,550.00	-	157,314,750.00
Other revenue	- 105,571,748.00	-	11,713,803.40	-	12,276,800.00	-	12,867,200.00
<b>Total Expenditure</b>	<b>868,923,451.57</b>		<b>1,055,703,859.16</b>		<b>1,173,836,235.95</b>		<b>1,195,976,065.71</b>
Employee related costs	223,255,217.00		249,285,387.30		264,526,500.00		281,697,700.00
Remuneration of councillors	12,509,400.00		14,406,756.64		15,267,777.39		16,237,043.54
Debt Impairment	46,704,866.00		61,491,952.15		82,484,897.78		75,130,240.86
Depreciation & asset impairment	80,000,000.00		80,000,000.00		80,000,000.00		80,000,000.00
Finance Charges	73,489,406.42		96,229,330.86		93,752,263.94		89,164,922.42
Bulk purchases	327,136,832.25		370,230,662.83		448,922,632.98		459,015,594.29
Other Materials	9,328,112.00		11,608,000.08		12,165,700.00		12,750,900.00
Contracted services	33,650,000.00		69,847,190.25		69,226,263.85		69,378,364.60
Other expenditure	35,558,313.90		57,746,386.97		60,478,200.00		63,330,900.00
Repairs & Maintenance	27,291,304.00		44,858,192.08		47,012,000.00		49,270,400.00
<b>Operating Surplus</b>	- 47,682,632.43	-	28,129,399.48		3,562,581.28	-	58,617,402.42

## Overview of Trading Services

It should be noted that trading & economic services are operating at a surplus of R69 million in the 2020/21 financial period and improve to R 86 million in the 2022/2023 financial year. The Municipality should continue to introduce and implementation of adequate measures to properly sustain the funding of the trading & economic Services. The Municipality needs to fulfil the obligations of correcting accounts and metering all services correctly as this will ensure that the deficit is reduced.

	<b>Draft Budget Year 2020/21</b>	<b>Draft Budget Year +1 2021/22</b>	<b>Draft Budget Year +2 2022/23</b>
<b>Total Revenue</b>	- 715,159,408.31 -	790,627,457.87 -	840,736,104.99
Electricity: Electricity ( Dept 603)	- 458,525,620.26 -	525,998,154.74 -	549,495,963.67
Solid Waste Removal: Cleansing ( Dept 302)	- 78,701,615.04 -	82,479,300.00 -	86,438,400.00
Waste Water Treatment: Sewerage ( Dept 407)	- 78,415,407.30 -	92,560,931.65 -	109,836,043.55
Water Distribution: Water ( Dept 607)	- 99,516,765.71 -	89,589,071.48 -	94,965,697.77
<b>Total Expenditure</b>	<b>645,827,514.87</b>	<b>724,368,958.56</b>	<b>754,105,722.18</b>
Electricity: Electricity ( Dept 603)	430,807,562.89	480,899,460.78	509,983,881.31
Solid Waste Removal: Cleansing ( Dept 302)	50,689,380.88	57,649,960.00	51,735,420.00
Waste Water Treatment: Sewerage ( Dept 407)	28,018,418.38	31,554,506.33	30,206,301.53
Water Distribution: Water ( Dept 607)	136,312,152.72	154,265,031.45	162,180,119.33
<b>Operating Surplus</b>	- 69,331,893.44 -	66,258,499.32 -	86,630,382.81

The table below shows the consolidated revenue and expenditure per function.

Row Labels	Draft Budget Year 2020/21	Draft Budget Year +1 2021/22	Draft Budget Year +2 2022/23
<b>I</b>	<b>- 1,083,833,258.64</b>	<b>- 1,170,273,654.67</b>	<b>- 1,254,593,468.13</b>
Cemeteries Funeral Parlours and Crematoriums: Cemeteries ( Dept 505)	- 316,320.00	- 331,600.00	- 347,600.00
Community Halls and Facilities: Office of Executive Manager Community Services ( Dept 308)	-	-	-
Economic Development/Planning: Office of Executive Manager Planning & Development ( Dept 606)	- 1,400,000.00	- 1,467,200.00	- 1,537,800.00
Electricity: Electricity ( Dept 603)	- 458,525,620.26	- 525,998,154.74	- 549,495,963.67
Finance	-	-	-
Finance: Budget & Treasury Office (Dept 200)	- 353,761,268.68	- 365,308,346.79	- 398,823,413.14
Fire Fighting and Protection: Fire & Rescue Services ( Dept 112)	- 100,000.08	- 104,900.00	- 110,000.00
Libraries and Archives: Libraries ( Dept 102)	- 48,661.56	- 51,100.00	- 53,600.00
Police Forces Traffic and Street Parking Control: Traffic ( Dept 109)	- 542,000.08	- 568,100.00	- 595,600.00
Roads: Office Of Executive Manager Technical Services ( Dept 400)	- 5,071,999.92	- 3,982,400.00	- 4,173,600.00
Roads: Roads & Streets ( Dept 401 & 410)	- 1,433,600.00	- 1,544,550.00	- 1,625,750.00
Solid Waste Removal: Cleansing ( Dept 302)	- 78,701,615.04	- 82,479,300.00	- 86,438,400.00
Town Planning Building Regulations and Enforcement and City Engineer: Town Planning ( Dept 600)	- 6,000,000.00	- 6,288,000.00	- 6,590,000.00
Waste Water Treatment: Sewerage ( Dept 407)	- 78,415,407.30	- 92,560,931.65	- 109,836,043.55
Water Distribution: Water ( Dept 607)	- 99,516,765.71	- 89,589,071.48	- 94,965,697.77

Row Labels	Draft Budget Year 2020/21	Draft Budget Year +1 2021/22	Draft Budget Year +2 2022/23
<b>E</b>	<b>1,055,703,859.16</b>	<b>1,173,836,235.95</b>	<b>1,195,976,065.71</b>
Administrative and Corporate Support: Office of Executive Manager Corporate Services ( Dept 101)	26,525,001.23	28,044,700.00	29,724,300.00
BTO: Office of Chief Financial Officer ( Dept 200)	1,196,736.12	1,254,200.00	1,314,500.00
Cemeteries Funeral Parlours and Crematoriums: Cemeteries ( Dept 505)	4,379,020.99	4,649,900.00	4,953,000.00
Community Halls and Facilities: Office of Executive Manager Community Services ( Dept 308)	31,606,342.80	33,124,900.00	34,716,100.00
Economic Development/Planning: Office of Executive Manager Planning & Developement ( Dept 606)	13,649,745.00	14,369,100.00	15,144,500.00
Electricity: Electricity ( Dept 603)	430,807,562.89	505,899,460.78	510,303,881.31
Finance	-	-	-
Finance: Budget & Treasury Office (Dept 200)	71,740,776.06	74,303,100.00	78,877,600.00
Fire Fighting and Protection: Fire & Rescue Services ( Dept 112)	15,591,165.11	16,489,700.00	17,485,000.00
Fleet Management: Workshop ( Dept 402)	8,000,664.97	8,484,600.00	9,028,000.00
Housing: Human Settlement ( Dept 602)	3,956,988.87	4,206,300.00	4,487,100.00
Human Resources: Personel ( Dept 113)	8,734,434.11	9,219,200.00	9,752,300.00
Information Technology: IT ( Dept 204)	13,199,116.37	11,399,400.00	8,626,900.00
Libraries and Archives: Libraries ( Dept 102)	1,418,005.18	1,508,000.00	1,610,200.00
Mayor and Council: Councillors ( Dept 100)	106,303,365.34	107,766,500.00	109,325,300.00
Mayor and Council: Executive Mayor ( Dept 095)	4,102,156.64	4,312,977.39	4,574,443.54
Municipal Manager Town Secretary and Chief Executive: Municipal Manager ( Dept 099)	29,397,767.69	31,160,700.00	33,160,300.00
Municipal Manager Town Secretary and Chief Executive: Satelite Office (Dept 106)	13,320,405.32	14,152,000.00	15,089,000.00
Police Forces Traffic and Street Parking Control: Traffic ( Dept 109)	9,874,474.69	10,455,600.00	11,103,600.00
Project Management Unit: Project Management Unit (Dept 605)	2,819,087.07	2,989,000.00	3,183,700.00
Property Services: Property Services ( Dept 103)	320,000.00	335,400.00	351,700.00
Recreational Facilities: Sports & Recreation facilities (500 & 501)	7,676,967.00	8,150,000.00	8,679,900.00
Road and Traffic Regulation: Licensing ( Dept 108)	-	-	-
Roads: Office Of Executive Manager Technical Services ( Dept 400)	3,953,251.56	4,178,300.00	4,423,900.00
Roads: Roads & Streets ( Dept 401 & 410)	18,021,189.44	19,064,700.00	20,222,100.00
Solid Waste Removal: Cleansing ( Dept 302)	50,689,380.88	57,649,960.00	51,735,420.00
Supply Chain Management: Supply Chain Management ( Dept 230)	3,788,795.81	4,023,800.00	4,288,200.00
Town Planning Building Regulations and Enforcement and City Engineer: Town Planning ( Dept 600)	10,300,886.90	10,825,200.00	11,428,700.00
Waste Water Treatment: Sewerage ( Dept 407)	28,018,418.38	31,554,506.33	30,206,301.53
Water Distribution: Water ( Dept 607)	136,312,152.72	154,265,031.45	162,180,119.33

## Overview of Government & Other Grants

Total operating grants for the 2020/21 MTREF financial year are summarised in the table below:

<b>MP305 LOCAL GOVERNMENT MTREF ALLOCATIONS: 2020/21 -</b>			
	<b>2020/21 Medium Term Revenue &amp; Expenditure Framework</b>		
	<b>Budget Year 2020/21</b>	<b>Budget Year +1 2021/22</b>	<b>Budget Year +2 2022/23</b>
Equitable share	149,432,000	141,102,000	152,689,000
<b>Infrastructure</b>			
Municipal infrastructure grant	28,672,000	30,891,000	32,515,000
Integrated national electrification programme (municipal) grant	12,385,000	10,000,000	15,000,000
Water services infrastructure grant	50,650,000	60,000,000	62,880,000
Water services infrastructure grant			
<b>Capacity building and other current transfers</b>			
Local government financial management grant	2,600,000	2,800,000	3,000,000
Municipal systems improvements grant	1,200,000		
Expanded public works programme integrated grant for municipalities	1,272,000	-	-
Energy efficiency and demand side management grant			
<b>Total Allocation</b>	<b>246,211,000</b>	<b>244,793,000</b>	<b>266,084,000</b>

National Treasury through a special adjustment has allocated an additional R 20 126 000 for equitable share in the 2021/21 financial and has already been accounted for in the above schedule.

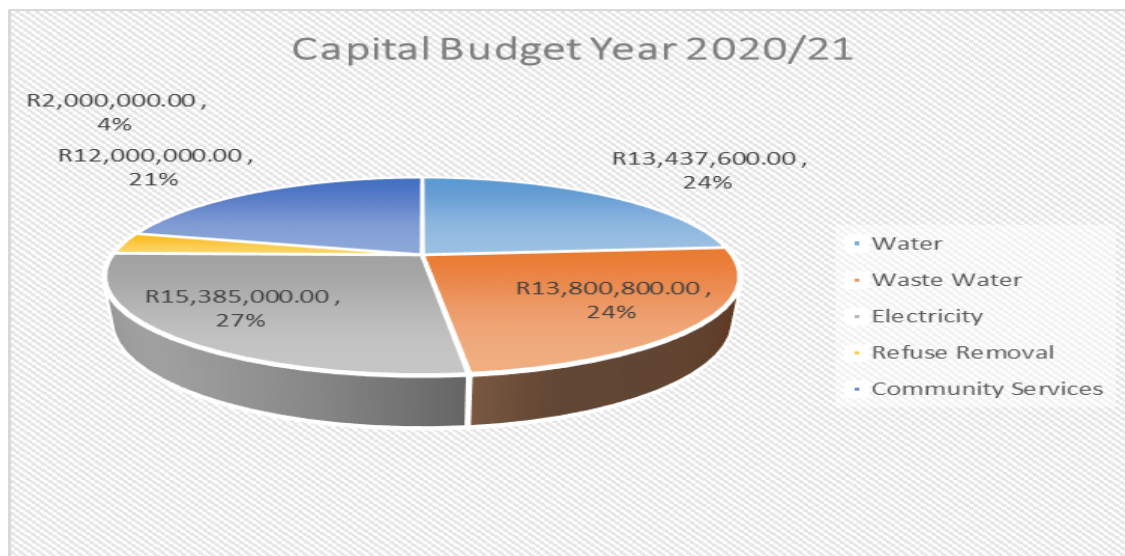
## Capital Projects Framework

One of the greatest challenges facing municipalities is the public perception in service delivery. Investment in municipal infrastructure is critical to sustaining growth, rehabilitating ageing infrastructure and eradicating service delivery backlogs. Therefore the capital financing strategies taken into consideration are:

- Ensure capital programme is based on priorities, programmes and projects of the IDP;
- Expedite spending on capital budget especially projects that are funded from conditional grants;
- Explore new ways to fund capital expenditure from own revenue contribution;
- Analyze feasibility and impact on operating budget before capital projects are approved

Ward/s Benefitting	IDP No	Project name	Source of Funding	2020/21 Medium Term Revenue & Expenditure Framework			Scope of Work 2020/21
				Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23	
1,2,3,4,5,6, 7,8,10,11 7 15	MIG 01	Refurbishment and/or upgrade of the Standerton Waste Water Treatment Works	MIG	3,423,873.25	8,000,000.00	10,000,000.00	Design for upgrade of Sewer Treatment Works
1,2,3,4,5,6, 7,8,10,11 7 15	MIG 02	Refurbishment and/or upgrade of the Standerton Water Treatment Works	MIG	7,437,600.00	7,212,800.00	7,012,000.00	Refurbishment and or upgrade of critical identified components
14	MIG 03	Refurbishment and upgrade of Morgenzon Water Supply	MIG	5,000,000.00	4,000,000.00	4,000,000.00	Refurbishment and or upgrade of critical identified components
4 & 10	MIG 05	Refurbishment and upgrade of sewer pump stations(Johan Street, Muller, Talijaard, TLC) and upgrade of coligny sewer line.	MIG	9,376,926.75	2,500,000.00	2,000,000.00	Refurbishment of sewer pump stations(Johan Street, Muller, Talijaard, TLC)
9,12 & 13	MIG 06	Installation/Refurbishment/Desludging or rural VIP toilets and provision of chemicals for the VIP toilets	MIG	1,000,000.00	1,500,000.00	1,500,000.00	Desludging of VIP toilets and or refurbishment
9,12 & 13	MIG 07	Refurbishment/Installation of boreholes in rural/farm areas	MIG	1,000,000.00	1,500,000.00	1,500,000.00	Refurbishment of boreholes
3 & 14	MIG 08	Upgrading of Sports Facilities in Lekwa LM	MIG	-	4,633,650.00	4,877,250.00	Finalisation of Morgenzon Sports Facility and Mahala Park
8, 9,12 & 13	INEP 01	Construction of switching station at Standerton Extension 8, Electrification of RDPs in Standerton Extension 8 and electrification of rural houses	INEP	12,385,000	10,000,000	15,000,000	Construction of switching station at Standerton Extension 8, Electrification of 400 RDPs in Standerton Extension 8 and electrification of 30 rural houses
1,2,3,4,5,6, 7,8,10,11,14 & 15	LLM 01	Installation of security systems for vulnerable Water, Sanitation and Electricity Infrastructure	IR	2,000,000	1,000,000	1,000,000	Electric fencing, installation of alarms linked to armed response unit for Waste Water Treatment Works, Water Treatment Works, Sewer Pump Stations and electricity substations.
1,2,3,4,5,6, 7,11 & 15	LLM 02	Fencing of reservoirs	IR	3,500,000	1,000,000	1,000,000	Fencing of two by 10 Megalitre round reservoirs, the new 10 ML reservoir and the 9ML square reservoir.
1,2,3,4,5,6, 7,8,10,11,12 ,14 & 15	LLM 03	Installation of telemetry system to monitor reservoir water levels	IR	2,500,000			Installation of telemetry system to monitor reservoir water levels
	LLM 04	Fencing of cemeteries	IR	4,000,000	2,000,000	2,000,000	Morgenzon and Rooikoppen
	LLM 05	Feasibility Study Renewable Energy	IR	3,000,000	5,000,000	2,000,000	
	LLM 06	Feasibility Study Landfill Site Operation & Recycling	IR	2,000,000	1,000,000	1,500,000	

## Capital Expenditure by GFS Classification



### Funding Sources

2020/21 Medium Term Revenue & Expenditure Framework			
	Budget Year 2020/21	Budget Year +1 2021/22	Budget Year +2 2022/23
MIG	27,238,400.00	29,346,450.00	30,889,250.00
INEP	12,385,000	10,000,000	15,000,000
Internal Funding	17,000,000	10,000,000	7,500,000
	<b>56,623,400.00</b>	<b>49,346,450.00</b>	<b>53,389,250.00</b>

The main challenges experienced during the compilation of the draft budget for 2020/21 MTREF can be summarised as follows:

- The budget must be funded in terms of section 18 of the MFMA ( Cash backed, credible and expenditure must be funded by realistic anticipated revenue) whilst no Capital expenditure can be incurred if the source of funding is not known and approved by Council Currently the draft budget shows a cash flow deficit, before paying Eskom and other liabilities
- The draft IDP that informs the Operational and capital budget was not tabled to Council in March 2020 for consideration and public consultation.
- Practical and implementable turnaround strategy with plans in terms of NT MFMA circulars 99, projects covered by funded expenditure within the budget with conservative estimated revenue need to be accompanying the Council resolution to approve such a draft or final budget.
- All expenditure budgets approved by Council must be funded by a cash backed revenue source, not only billed revenue but cash resources. It imply that all directors need to show how any such expenditure included in a draft budget will be funded otherwise it need to be removed
- The Budget steering committee did not meet to discuss the draft budget as required per the Budget and reporting regulations ( Government gazette 32141 dated April 2009)
- A repayment plan (one year) for all creditors owed, need to be negotiated with in and be funded from debtor's arrears to be collected. This plan will have to be reflected in table A8 as to be finally funded.
- Tariffs & policies are still under review and will be benchmarked with other Municipalities
- Aging and poorly maintained water, roads and electricity infrastructure that is deteriorating
- Lack of safe and reliable water supply (in line with Blue and Green Drop reports & scores of Municipalities)
- Lack of/inadequate employment opportunities (correlate with poverty driver information of the CS)
- Cost of electricity purchases – trading service operating on a loss
- Cost of water purchases – trading service operating on a loss

## **Overview of Budget Process**

### **Political Oversight of Budget Process**

The concept of political oversight over the budget process is an important one and it is the key to ensuring that strategy informs the budget.

The political oversight role of the Mayor is contained in Section 53 (1)(a) and (b) of the Municipal Finance Management Act (MFMA). It requires that the Mayor must provide political guidance over the budget process and the priorities that guide the preparation of the budget. It further requires that the Mayor co-ordinate the revision of the IDP and the preparation of the annual budget and to determine how the IDP is to be taken into account for the purpose of the budget.

The demands on the Municipality to address service delivery backlogs and to improve service delivery to all of its citizens, within current financial resources, are challenging. Political oversight of the budget process is therefore essential to ensure that the priorities of the municipality are addressed through budget allocations.

### **Schedule of Key Deadlines Relating of Budget Process**

One of the objectives of the budget timetable is to ensure the development/review of the IDP and the budget and also to ensure that a funded budget is tabled for consideration and approval. The timetable schedule for the compilation of the 2020/21 budget cycle was approved by Council during August 2019 in compliance with the MFMA.

### **Process for Consultations with Stakeholder Groups and Outcomes [MFMA 21(1)(b)]**

Section 22 of the MFMA requires that after tabling of the annual budget in Council, the municipality must make public the draft budget and also invite the local communities to submit representations thereon. Accordingly the tabling of the draft budget in the Council will be followed by the following activities:

The Draft budgeted document to be published on the website generally to be distributed to libraries and other municipal offices to allow the wide invitation of comments and representations to the draft budget

Submission of the Draft budget to Provincial and National Treasuries as well as Department of Provincial and Local Government

Public meetings have been not yet held in various wards

## **Overview of Budget-Related Policies**

It is a legislative requirement that municipal budget for the following fiscal year, together with finance related policies reviewed are tabled and adopted by council.

The following financial policies will be reviewed:

### **The Supply Chain Management Policy**

The policy ensures that all employees of Lekwa Local Municipality has proper guidelines to follow when involved in procurement processes.

## **Property Rates Policy**

This policy guides the annual setting (or revision) of property rates. Details pertaining to the applications of the various property rates are published in the Provincial Gazette and the municipality's schedule of tariffs, which must be read in conjunction with this policy.

In imposing the rate in the rand for each annual operating budget component, the municipality shall grant exemptions, rebates and reductions to the respective categories of properties and owners as allowed for in this policy.

The policy also guides the valuation of properties within the jurisdiction of the Municipality.

## **Asset Management Policy**

The purpose of the policy should promote efficient and effective monitoring and control of assets according to the MFMA.

The changes have been made in term of Generally Recognised Accounting Practice (GRAP)

## **Indigent Support Policy**

The key purpose of an indigent subsidy policy is to ensure that households with no or lower income are not denied a reasonable service, and on the contrary the Municipality is not financially burdened with non-payment of services. Provided that grants are received and funds are available, the indigent subsidy policy should remain intact. To achieve the purpose it is important to set a fair threshold level, and then to provide a fair subsidy of tariffs.

The consumer, in order to qualify as an indigent, needs to complete the necessary documentation as required and agree to regulations and restrictions stipulated by Lekwa Local Municipality.

## **Bad Debt Provision & Write-off Policy**

The key purpose of this policy is to provide criteria for the provision of working capital as a result of non-payment and for the write-off of debt under certain circumstances.

Council acknowledges that in order to deliver services in a sustainable manner, that revenue collection be managed in terms of Councils Debt Collection and Credit Control Policy having due regard of its limited financial resources and the need to manage cash flows. Council therefore accepts its duty to prepare financial statements that truly reflects the financial position of the Municipality.

## **Petty Cash Policy**

The policy is established to ensure that the management of expenditure of a municipality is effective and controlled manner.

## **Credit Control and Debt Collection Policy**

The purpose of this policy is to use innovative, cost effective, efficient and appropriate methods to manage credit control and debt collection of the municipality

## **Tariff Policy**

This policy cover, among other things, the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements.

## **Budget Policy**

The main importance of budget policy is to address allocation of resources, and how to efficiency use resources and attaining economic stability and growth, and redistribution of income. It includes the Virement Policy that is designed to provide a framework whereby transfers between line items within votes of the operating budget may be performed with the approval of certain officials.

## **S & T Policy**

The purpose of this policy is to lay down general rules for the payment of subsistence and traveling allowances or costs for the attendance of approved events outside the municipal area of Lekwa Local Municipality.

## **Budget Principles**

As a result of the economic landscape and weak tariff setting, the municipality is under pressure to generate revenue. The ability of customers to pay for services is declining and this means that less revenue will be collected. Therefore, municipality has consider the following when the 2020/21 MTREF budgets was compiled:

- improving the effectiveness of revenue management processes and procedures;
- paying special attention to cost containment measures by, amongst other things, controlling unnecessary spending on nice-to-have items and non-essential activities as was highlighted in MFMA Circular No. 99;
  - ensuring value for money through the procurement process;
  - the affordability of providing free basic services to all households; and
  - curbing consumption of water and electricity by the indigents to ensure that they do not exceed their allocation.
- The salary budget has been increased with 6.25%
- The reduction of deficit
- To increase the collection rate
- Increase Economic Development
- Creation of Job opportunity
- Reduction of consumer debtors
- Cost curtailment
- Introduction of new tariffs (Effluent tariffs, Bulk contribution Policy, Land Sales, Mining tariffs etc.)

- Budget responding to IDP
- Review of existing tariffs
- Realistic budget
- Application of Credit Control and Debt Collection Policy

## **National Grant Allocations**

### **Equitable Share**

The equitable share is an unconditional grant and as such can be regarded as general revenue, however, it is a matter of co-operative governance that municipalities should prioritise its expenditure budget towards poor households and national priorities like free basic services.

### **Municipal Infrastructural Grant (MIG)**

The Municipal Infrastructural Grant (MIG) is entering its 11th year of implementation in the 2018/19 financial year. It resulted from the consolidation of various capital grants for municipal infrastructure (CMIP, Water Services Projects, CBPWP, LEDF, BSRP and the Urban Transport Fund) into a new funding arrangement.

The Municipal Infrastructural Grant is a conditional grant which gives effect to national objectives to:

- Expand the delivery of basic services to all households, including the delivery of free basic services to poor households and other poverty alleviating objectives.
- Stimulate local economic development and job creation over the medium term.

The MIG funding will be utilised for the paving of internal roads, sporting facilities and high mast projects in areas falling within Lekwa Local Municipality.

### **Finance Management Grant**

The Finance Management Grant is a capacity building grant provided by National Treasury to assist municipalities in building management planning, technical and financial management skills and capacity for effective service delivery.

It will be utilised for the upgrading of skills and capacity of the Finance officials for workshops and training programmes, funding financial programmes with a view to capacitate financial systems, as well as for the remuneration of the interns currently employed by the municipality and cover costs of their training and its facilities. There are currently seven interns employed.

## **RECOMMENDATION BY THE EXECUTIVE MAYOR (MUNICIPAL MANAGER)**

1. That in terms of section 24 of the Municipal Finance Management Act, 56 of 2003, the annual budget of the municipality for the financial year 2020/21; and indicative allocations for the two projected outer years 2021/22 and 2022/23; and the multi-year capital appropriations **BE APPROVED**;
2. That, pending approval by NERSA, the 6.22% the proposed increase on electricity tariffs, for the supply of electricity accounts rendered with effect from 1 July 2020, **BE APPROVED**; Annexure “D”
3. That the principles and budget assumptions upon which both the Operating Budget and Capital Budget have been based **BE NOTED**; Annexure ‘A’ Budget tables
4. That in terms of section 24(2)(c)(i) of the Municipal Finance Management Act, 56 of 2003, and sections 74 and 75A of the Local Government Municipal Systems Act, 32 of 2000 as amended, the tariffs for the supply of water, cleansing services, sanitation services property rates and sundry tariffs as set out “Annexure B - D” **BE APPROVED** for accounts rendered with effect from 1 July 2020.
5. That the 2020/21 budget together with the related policies as tabled, **BE APPROVED**
6. That the proposed tariffs increase of services of 8% as indicated in “Annexure ‘B - D” **BE PUBLISHED**;
7. That the annual salary increase of 6.25% **BE NOTED**, while the multi years collective salary agreement negotiations between SALGA and labour unions are still in progress;
8. That provision **BE MADE** for a 6.25% estimate increase in the salaries of councillors, of which final approval is still to be announced in terms of Public Office Bearers Act;
9. That Heads of Department Ensure that the revenue and expenditure of their relevant department/section is monitored regularly, and, should it be found that the estimate revenue would not be realised, the Budget and Treasury Office **BE ADVISED** accordingly in order for the revenue budget to be adjusted during the budget adjustment process;
10. That the proposed capital budget **BE ENTIRELY BASED** on the IDP priorities in order to achieve National targets on service provision;
11. That in terms of the Indigent Policy, the monthly gross household earnings for the approval as an indigent household application **BE CAPPED** at R4 400;
12. That it **BE APPROVED** that only indigent customers will be provided with the free basic services;

13. That the level of subsidisation of indigent customers in terms of the Indigent Policy **BE DETERMINED** as follows:

- a. Water - 6 kl per month
- b. Electricity - 50 kwh per month
- c. Basic Electricity
- d. Basic Water
- e. Basic Sewerage
- f. Refuse Removal

14. That the following Budget Related Policies **BE PUBLISHED:**

- a) Credit Control & Debt Collection Policy
- b) Supply Chain Management Policy.
- c) Property Rates Policy
- d) Tariff Policy
- e) Bad Debt Provision & Write-off Policy
- f) Budget Policy (Virement Policy )
- g) Asset Management Policy
- h) Petty Cash Policy
- i) Indigent Policy
- j) S & T Policy
- k) Banking & Cash Policy
- l) Unauthorised, Irregular & Fruitless Expenditure
- m) Bulk Contribution Policy